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C O N F I D E N T I A L QUITO 002386

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E.O. 12958: DECL: 09/27/2016
TAGS: [ECON](#) [EPET](#) [EINV](#)
SUBJECT: ECUADOR EVALUATES HURRIED CONCESSION OF
LONG-NEGLECTED ITT OIL FIELDS - WHY NOW?

REF: A. A. QUITO 2138

[1](#)B. B. QUITO 1231

Classified By: Ambassador Linda L. Jewell, Reasons 1.4 (b&d)

[1](#)1. (C) Summary: Ecuador's Hydrocarbons Vice-Minister reports that Chinese company Sinopec has made a strong offer to develop Ecuador's large ITT oil fields and the GOE is considering soliciting bids for the field before the Palacio government leaves in January. Post and industry insiders view the announcement with skepticism due to the challenge of bidding for and establishing a contract to develop these complex and isolated fields in the last four months of an outgoing administration. In addition, the fields overlap with environmentally sensitive areas that may contain uncontacted indigenous tribes, and any proposal to develop the fields will be opposed by environmental and indigenous-rights NGOs. Chinese government officials discount the Vice-Minister's comments as exaggerated. End Summary.

[1](#)2. (SBU) Ecuador's new Vice Minister of Hydrocarbons Hugo Coronel (who has been in office a scant 4 weeks) told econoff of the GOE's plan to put the Ishpingo-Tambococha-Tiputini (ITT) fields project out for bid by the end of the year. Coronel was accompanied by Houston-based petroleum advisor, [1](#)J. Raul Ortiz.

[1](#)3. (SBU) The ITT project would be very large for Ecuador - large enough to attract the interest of oil majors who habitually pass over smaller reserves. Coronel reports the fields have 1 billion barrels of heavy oil reserves and the project could mean 3-4 billion dollars in investment. Petroecuador representatives noted in a separate meeting that the oil in the fields is very heavy (14% API), so the project ideally would include a refinery to convert the petroleum into lighter crude or derivatives to facilitate transportation through existing pipelines.

[1](#)4. (C) Ortiz and Coronel noted they have received a "superb" offer from Sinopec, the Chinese oil company, which would be very difficult to turn down. The GOE is currently analyzing the offer through an interagency committee, which will decide on next steps. Coronel mentioned that the project might be put out for bid in a "Swiss Challenge" process, where one offer is presented to the public (in this case, Sinopec's), and other companies are invited to top it. The two lauded the Swiss Challenge process as transparent, but skeptics

assert it could be subject to manipulation - for example, by limiting the bid circulation or time frame for responding. Comment: this process was used in awarding the concession for Quito's international airport, and with a short window for bid submission during the month of December, no competitive bids were submitted.

¶15. (C) In a separate meeting, Petroecuador representatives confirmed the plan to move forward with the ITT project, and that Sinopec is a candidate. However, they suggested there may be other interested players, noting Brazil's Petrobras as a possible investor (and a news article suggested that Argentina's Enarsa may also be interested). India, Indonesia, and Malaysia have also expressed interest in ITT (India and Indonesia have both signed energy cooperation agreements with Ecuador). We are not aware of any U.S. oil firms that are interested in investing in the ITT fields at this time, although Chevron and Exxon had expressed some interest in the past. Russia's Lukoil is reported to have offered a large bribe in 2005 to develop the ITT fields, but we are not aware of any current interest on the part of Lukoil.

¶16. (C) EconOff spoke with Zou Chuanming, Commercial Counselor at the Chinese Embassy in Ecuador (protect), about the ITT offer. Mr. Zou said that "no offer had been made" but that Sinopec had "expressed interest, like a number of other companies." Mr. Zou said everything depended on "if and when the bid would occur." When asked if Chinese oil companies were worried about investing in Ecuador after watching the value of Andes Petroleum's assets plummet after the passing of the Hydrocarbons Law (reftel b), Mr. Zou said "yes it influences" their attitude, and noted that "the political environment in Ecuador is still uncertain." (Note: Sinopec does not have its own assets in Ecuador. It is a

minority partner in the Andes Petroleum consortium. The majority partner, CNPC, has its own separate project in Block 11.)

¶17. (SBU) One of the reasons the ITT fields have not yet been developed is that they lie in the heart of Yasuni National Park, one of Ecuador's major protected areas and biosphere reserves, which may also contain uncontacted tribes. U.S. firm Burlington Oil, recently purchased by Conoco Philips, owns concession rights in an area that has not historically been considered environmentally sensitive. However, its concession has been in force majeure for five years due to opposition from indigenous groups in its block. Burlington has not yet been able to start preliminary work or even open an office in their concession area. Petrobras has a field that has been in a state of suspended activity for more than a year based on an Environment Ministry decree. Plans to develop ITT have in the past assumed the oil investor would commit to minimizing environmental impacts by flying in drilling rigs by helicopter instead of building roads, and where roads were necessary to construct buried pipelines, that the roads be removed after construction. However, even with these methods, the GOE would likely face vocal opposition from local and international NGOs.

¶18. (C) Comment: This project has been under discussion for 10 years, and its development has been hampered by the fields' heavy oil, relative isolation, and environmental sensitivity. Sinopec may have made such an attractive offer that the GOE feels compelled to move on it, although the Chinese Embassy denies the discussions were that advanced. (See reftel a on China's long-term interest in Ecuadorian petroleum in spite of the setback suffered by Oxy's erstwhile partner Andes Petroleum - ref b). We are skeptical that the GOE and Petroecuador have the ability to move such a complex matter to conclusion in the limited time remaining under the Palacio administration. End Comment.
JEWELL